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Intelligence Memorandum—Jordan: Economic Prospects

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# Intelligence Memorandum

*Jordan: Economic Prospects*

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## Jordan: Economic Prospects

## KEY JUDGMENTS

The outlook for Jordan's economy during 1974 is favorable, barring a renewal of major fighting. Jordan's balance of payments in 1974 is expected to show a surplus of at least US \$70 million.

- The value of exports may more than double,
- Foreign aid payments and capital inflows for development will increase,
- The need for grain imports should be well below last year's,
- Jordan's petroleum is supplied by Saudi Arabia at low prices, and
- Increased military equipment purchases will be paid for with foreign aid.

Prospects for economic development over the longer term also are good. Projects under way will

- Increase the output and lower the costs of phosphate exports,
- Add to Jordan's earnings from tourism,
- Increase farm output, and
- Exploit Jordan's considerable copper reserves.

Changed political conditions could alter the long-term prospects. Creation of an autonomous Palestinian state on the West Bank could adversely affect the investment climate and require additional expenditures for internal security. Any delays in movement toward a negotiated Middle East settlement also could dampen economic development prospects.

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Note: Comments and queries regarding this memorandum are welcomed. They may be directed to [REDACTED] of the Office of Economic Research, Code 143,

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## DISCUSSION

## 1973 in Perspective

1. Jordanian GNP during 1973 again increased nearly 8% in real terms, despite setbacks to agriculture from severe drought. Disruptions from the October war were minimal—direct military costs totaled no more than \$15 million—and industrial output remained strong, with large gains made in the production of phosphates and cement.

2. Resumption of Kuwaiti Khartoum payments and unexpectedly large remittances from Jordanians working abroad helped to produce a balance-of-payments surplus of \$20 million. Foreign exchange holdings by December were up to \$330 million, about equal to a year's imports. The large budget deficit forecast throughout the year was reduced to \$36 million. Despite strong inflationary pressures, Amman began 1974 in an atmosphere of increasing economic confidence.

## The Balance-of-Payments Outlook for 1974

3. Jordan's foreign payments position will continue to improve this year and the balance of payments is expected to show a surplus of at least \$70 million, barring a renewal of fighting (see the table).

## Jordan: Summary of Balance-of-Payments Position

	Million US \$	
	1973	1974
Foreign exchange receipts	355	485
Exports of goods	55	120
Services, net	75	75
Transfer payments	165	190
Capital inflows	60	100
Imports	335	415
Balance to reserves	20	70

Foreign exchange receipts are likely to rise by about 35%, with more than one-fourth of the growth being generated from higher export prices for phosphates

alone. Foreign transfer payments and development aid are also expected to increase. Import growth probably can be held to less than 25% because of reduced need to import grains and continued receipt of low-priced petroleum supplies.

## Exports

4. We estimate that export earnings will more than double the 1973 level. Phosphates, cement, and agricultural products, which together constitute 80% of total exports, will account for much of the increase.

	Million US \$	
	1973	1974
Total	55	120
Phosphates	12	60
Cement	4	15
Agricultural products	14	20
Other	25	25

World fertilizer shortages have caused phosphate prices to soar from \$14 a metric ton to prices ranging from \$30-\$50 per ton in the last six months. Jordan plans to increase phosphate production in 1974 by about 70% to 1.9 million tons. At an average price of \$32 per ton, phosphate earnings would reach \$60 million. At the upper end of the price range, they would bring an additional \$35 million. Cement exports also will rise substantially above 1973 levels. A decline in local construction together with continuing high world demand will permit the boosting of exports to about 400,000 tons. Earnings from cement exports might well reach about \$15 million, nearly four times the 1973 level.

5. We estimate that earnings from food exports will rise to \$20 million, an increase of \$6 million over 1973. Excellent growing conditions thus far have insured a bountiful crop of fruits and vegetables, heretofore Jordan's primary export earners. Softer prices for these commodities, particularly in Europe, will limit the increase in earnings from this source.

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*Net Services*

6. Net services are projected to remain unchanged from last year's level. Private remittances from Jordanians working in the Persian Gulf countries declined sharply after the October war. These transfers normally account for about half of all Jordanian receipts for services. They include funds remitted to support families living in Jordan and, to a lesser extent, investment funds that go primarily to the construction sector. While private remittances probably will remain sluggish through the first half of 1974, they should accelerate as the outlook for peace in the area improves and the Jordanian economy gets into full swing.

*Foreign Transfers*

7. Foreign assistance, excluding direct military aid, will reach \$190 million, a 15% increase over 1973:

	<u>Million US \$</u>	
	1973	1974
Total	165	190
United States	75	80
Saudi Arabia	43	43
Kuwait	30	56
Other	17	11

8. The United States has proposed budget support aid of \$75 million for US fiscal year 1975. Saudi assistance in 1974 will remain at least as high as last year and may be increased. An additional \$5 million in PL 480 commodities, which has already been allocated, will push the US contribution to \$80 million. The large increase in the Kuwaiti payment represents the first full year's payment of the subsidy since 1971. Jordan received only a nine-month payment in 1973. In addition, Kuwait has announced an increase in the annual payments, putting total Khartoum aid to Jordan at around \$56 million annually, compared with \$40 million before the suspension of payments in 1971.

*Defense Purchases*

9. Jordan renewed efforts to reorganize and re-equip its armed forces following the October war. Substantial new funds are now available to cover

expanded military purchases. Proposed direct military assistance of \$100 million from the United States and \$43 million committed by the United Arab Emirates during 1974 will increase military grant aid to a level of more than three times that of 1973. The US Government has proposed extension of an additional \$30 million in foreign military sales credits to Jordan contingent upon third party financing. Jordan's oil-rich Arab neighbors will almost certainly underwrite these credits if they are extended.

10. Although direct foreign military assistance has covered the bulk of military import costs, Jordan has also used about \$15 million a year of US budget support funds to purchase defense equipment and services abroad. The siphoning of budget support funds for these purchases as well as for other local defense costs in past years has restrained economic development. When faced with a choice between spending for defense or economic development, the Jordanians have consistently chosen defense. Additional funds for military assistance in 1974 should ease further pressure on the foreign payments account and leave more funds for Jordan's ambitious economic development program.

*Capital Inflows*

11. Jordanian officials estimate receipts on capital account during 1974 to be around \$136 million. Total development spending has been set at \$174 million, of which \$38 million is to be derived from budget revenues. Although project managers are optimistic that the pace of development will accelerate this year, the Jordanian economy simply will be unable to absorb investment funds at this rate. Administrative, planning, and human resource limitations impose a real ceiling on the rate of growth. Development spending in 1973 approached about \$60 million, roughly half of the planned expenditures. On the basis of past performance, we believe that total development spending may be more nearly \$125 million and that about \$100 million may be expected from foreign sources.

*Imports*

12. Jordanian planners estimate that imports will increase 35% in 1974, pushing the total to about \$450 million; imports increased only 15% in 1973. We believe that a 25% growth would be the upper limit,

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even with economic development proceeding at a high rate. Food imports, which made up about 30% of the 1973 import bill, should be down substantially this year. Wheat production, the major crop and dietary staple, should amount to 225,000 tons this year, compared with 45,000 tons during 1973. Only one-third of estimated consumption will need to be imported this year. Rice and sugar, which make up about one-fifth of total food imports, will increase in price, but the increase will not exceed the savings on wheat and flour imports.

13. Petroleum imports, which have been a major inflationary item in the import accounts of most countries, will cause Jordan few problems. Saudi Arabia supplies all of Jordan's crude oil, delivering oil at a longstanding price of about \$2.00 per barrel. According to *TAPLINE* representatives, the government has not paid for any petroleum deliveries since 1972, while payment of transit fees by the company, in turn, has been suspended. The present arrangement cannot persist indefinitely, but it is likely that Jordan will continue to receive special treatment by the Saudis on its crude oil imports when more normal arrangements are restored.

14. Imports of manufactured goods and machinery for development will show the greatest change in 1974. Our maximum estimates of a 35% rise in the cost of manufactured imports and a 100% increase in the value of machinery imports, however, would boost total import outlays less than 25%.

#### *Foreign Exchange Reserves*

15. We expect foreign exchange reserves to increase by about 20%, or roughly \$70 million, this year. If growth of imports were held to the 1973 rate of 15%, reserves could be increased by more than \$100 million. As a worst case and if the Jordanian estimate of 35% import growth is achieved, reserve levels could still increase, as shown in the tabulation:

Million US \$		
Import Growth Rate (Percent)	Reserve Accumulation	Possible Total Reserves End 1974
15	100	430
25	70	400
35	30	360

#### **The Longer Term Development Outlook**

16. Economic development prospects over the longer term look bright. Plans for 1974 include construction of a \$7 million ceramics plant, a new textile plant financed by Taiwanese capital, and a \$60 million expansion of the national petroleum refinery north of Zarqa. Capacity of the government cement plant will be doubled in the next year by adding another kiln. Phosphate mining facilities at El Hasa are being enlarged, and the Aqaba rail link, which will reduce transportation costs and improve the competitiveness of Jordanian phosphates, is nearing completion. Construction is to begin this year on a superphosphate fertilizer plant near Aqaba. Extension of the East Ghor canal system and completion of the Zarqa River dam this year will add 12,000 acres of irrigated land, further boosting farm output.

17. Financing for Jordan's ambitious development plans has come largely from foreign government grants or loans. Foreign private investors have become increasingly active, however. Holiday Inn and Marriott Corporation plan to build luxury hotels in Amman and Aqaba. First National City Bank of New York will soon begin operations in Amman, and Chase-Manhattan Bank plans to open a branch in Jordan later this year. Oil-rich Arabs also may take note of opportunities in Jordan as the investment climate improves.

18. US and French investors continue to explore the possibility of exploiting Jordan's extensive copper deposits. A French mining company has submitted a proposal to construct a pilot plant in a joint venture with the Jordanian Government. Amman is holding back on a final commitment until it has had time to study proposals made through the Battelle Institute. Copper production, which is several years away, would add a new dimension to Jordan's exports.

19. The course of political settlement in the Middle East will be critical to economic development. Creation of an autonomous Palestinian state on the West Bank would reduce political stability in Jordan, causing Amman to spend more on internal security and the investment climate to worsen. A rival autonomous Palestinian state would compete for Arab investment, a struggle in which King Husayn might come out second best.

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20. On the other hand, a political settlement that created a semi-autonomous West Bank with some political and economic links to Jordan would strengthen the prospect of sustained Jordanian economic growth, although the spreading of limited administrative talent

and manpower over a wider area might slow development in the initial period. West Bank development requirements would be small—perhaps on the order of \$50 million to \$100 million annually. Arab aid could be helpful in financing such development.

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